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Latin America and the Caribbean: economic situation and outlook, 2008-2009

Summary

Gross domestic product (GDP) growth in Latin America and the Caribbean stood at 4.2 per cent in 2008, which was the sixth consecutive year of expansion, yet at the same time marking the end of a period which has very few precedents in the economic history of the region.

The projected growth rate for 2009 points to an increase in the regional unemployment rate, from an estimated 7.5 per cent in 2008 to as much as 8.6 per cent in 2009. Trends in the world prices of foodstuffs and fuels, however, are likely to bring about a marked fall in inflation, from 8.3 per cent in 2008 to 5.5-6 per cent in 2009.

What started out as a problem in the subprime mortgage market in the United States of America in mid-2007 became, just over a year later, a systemic crisis that crippled the credit markets of the developed countries and is already having an extremely negative impact on the real economy. Although the region is better prepared to face this crisis than previous ones, there are a number of channels through which the economies are being affected. First, the slowdown in the world economy is lowering the volume and prices of the region's exports, bringing down remittances and cutting foreign direct investment and demand for tourism services. The countries are also faced with more difficult access to external credit, the cost of which has increased.

In 2009, growth in Latin America and the Caribbean is expected to fall to a growth rate of -0.3 per cent. The Governments of the region should make every effort to deploy countercyclical policies in order to ward off an even sharper economic decline.

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Contents

		Page
I.	General trends	3
II.	The financial crisis	5
III.	Transmission of the crisis to Latin America and the Caribbean	5
IV.	The Latin American and Caribbean region is better prepared to face the crisis but is not immune	14
V.	Measures implemented in the region to cope with the escalating crisis	17
VI.	Current situation and outlook for 2009	20

I. General trends

1. Economic activity in Latin America and the Caribbean grew by 4.2 per cent in 2008, marking the sixth consecutive year of per capita gross domestic product (GDP) expansion averaging over 3 per cent per year. This was coupled with improvements in labour-market indicators and a reduction in poverty in the region. An outstanding feature of this period was the fact that, in most of the countries, policymakers placed priority on maintaining macroeconomic balances, which helped to generate surpluses in both their external and fiscal accounts. This was also helped by the highly favourable external context of recent years.

2. These results will not be repeated in 2009, however. A fall in economic activity to -0.3 per cent is expected, and the Governments of the region should make every effort to deploy countercyclical policies in order to ward off an even sharper economic decline. Again in contrast with the period 2003-2008, growth projections for the region suggest that the regional unemployment rate will rise from an estimated 7.5 per cent in 2008 to as much as 8.6 per cent in 2009. The behaviour of international food and fuel prices, on the other hand, indicates that inflation will drop from 8.3 per cent in 2008 to 5.5 to 6 per cent in 2009.

3. What started out as a problem in the subprime mortgage market in the United States of America in mid-2007 became, just over a year later, a systemic crisis that crippled the credit markets of the developed countries. In 2008, the world economy underwent a sharp slowdown as growth dropped to 3.4 per cent from 5.2 per cent in 2007, and the rate for 2009 is expected to stand at 0.5 per cent.

Table 1
Latin America and the Caribbean: gross domestic product
(Annual growth rates 2006-2009, percentage)

Country	*2004*	*2005*	*2006*	*2007*	*2008[a]*	*2009[b]*
Argentina	9.0	9.2	8.5	8.7	7.0	-1.5
Bolivia (Plurinational State of)	4.2	4.4	4.8	4.6	6.2	3.0
Brazil	5.7	3.2	4.0	5.4	5.1	-1.0
Chile	6.0	5.6	4.3	5.1	3.2	0.0
Colombia	4.7	5.7	6.8	7.5	2.5	0.5
Costa Rica	4.3	5.9	8.8	6.8	2.9	-0.5
Cuba	5.4	11.8	12.5	7.0	4.3	3.0
Ecuador	8.0	6.0	3.9	2.7	6.5	0.0
El Salvador	1.9	3.1	4.2	4.7	2.5	0.5
Guatemala	3.2	3.3	5.3	5.7	4.0	1.5
Haiti	-3.5	1.8	2.3	3.2	1.3	0.5
Honduras	6.2	6.1	6.3	6.3	4.0	1.5
Mexico	4.0	3.2	4.8	3.3	1.3	-2.0
Nicaragua	5.3	4.3	3.9	3.0	3.0	1.0
Panama	7.5	7.2	8.5	11.2	9.2	4.0

Country	*2004*	*2005*	*2006*	*2007*	*2008[a]*	*2009[b]*
Paraguay	4.1	2.9	4.3	5.5	5.8	-0.5
Peru	5.1	6.7	7.6	9.0	9.8	3.5
Dominican Republic	1.3	9.3	10.7	8.5	5.3	1.5
Uruguay	5.0	7.5	4.6	7.4	8.9	2.5
Venezuela (Bolivarian Republic of)	18.3	10.3	10.3	8.4	4.8	1.0
Subtotal Latin America	**6.0**	**5.0**	**5.7**	**5.8**	**4.2**	**-0.3**
Bahamas	--	—	4.6	2.8	1.5	-1.0
Barbados	—	—	3.3	3.2	1.5	-1.5
Belize	—	—	4.7	1.2	6.0	1.5
Guyana	—	—	5.1	5.4	4.8	2.0
Jamaica	—	—	2.5	1.2	0.0	-2.0
Suriname	—	—	5.8	5.3	5.0	3.0
Trinidad and Tobago	—	—	12.0	5.5	3.5	-1.5
Eastern Caribbean Currency Union	—	—	6.3	5.3	2.0	-1.0
Subtotal Caribbean	**4.3**	**4.8**	**6.9**	**3.8**	**2.4**	**0.1**
Latin America and the Caribbean	**6.0**	**5.0**	**5.8**	**5.7**	**4.2**	**-0.3**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

[a] Preliminary figures.

[b] Projections.

4. Measured on the basis of export volumes, world trade expanded by 4.4 per cent in 2008, significantly less than the 6.3 per cent recorded the year before. For 2009, the World Trade Organization (WTO) expects a sharp drop of 9 per cent in export volumes. The impact on the developed countries will be greater, with export losses of some 10 per cent, while growth in exports from the developing countries should be down to about 2 per cent to 3 per cent.

5. Global economic activity began to cool as a consequence of the financial crisis, which, with the developed countries as its epicentre, erupted in mid-2007 and continued to deepen throughout 2008 despite the determined efforts made by authorities in numerous countries to contain it. The developed economies as a group grew by 1 per cent in 2008, compared with 2.7 per cent in 2007, and a contraction of

2 per cent in the major advanced economies is expected in 2009. Developing countries also experienced a slowdown in 2008, but still managed to post a robust growth rate of 6.3 per cent and are expected to grow by 3.3 per cent in 2009.

II. The financial crisis

6. The depth and scope of the current crisis can only be compared with that of the 1930s. Both began in the United States financial system and spread to other countries and sectors; both began with the bursting of a bubble in asset values, leaving the financial system with solvency problems. The impact may be much greater on this occasion, however, because of the much greater magnitude of the financial system, financial entities are much more interconnected at the international level, and the opacity of the financial system has reached record levels.

7. The financial crisis spread rapidly to the real economy. The world economy is falling into recession, pushed by the tremendous loss of wealth (estimated at 25 per cent of the worldwide stock) and the widespread increase in uncertainty. This has worsened credit constraints and has begun to cause layoffs and rising unemployment. It is no longer a matter of rescuing a few banks in distress; it is the economy as a whole that has to be rescued. The United States Federal Reserve and the European central banks have made great efforts since the beginning of the crisis to sustain levels of liquidity in the financial systems, and are continuing to do so, but the banks, for a number of reasons, some of which are set out below, are not lending:

(a) Uncertainties regarding the rollover of their liabilities are leading them to boost their liquidity;

(b) Losses of capital forces banks to restructure their debt ratios;

(c) Uncertainty also extends to the solvency of potential clients.

8. On the demand side, there are few solvent borrowers willing to incur debts in order to invest or purchase durable goods. This is a perfect Keynesian situation, with almost infinite demand for liquidity and demand for goods which is unresponsive to interest rates.

9. Thus, although public spending must be increased in order to stimulate demand, the potential impact of the fiscal stimulus will be seriously weakened if the "deleveraging" trend in the financial system is not reversed.

III. Transmission of the crisis to Latin America and the Caribbean

10. Within the framework of this generally bleak outlook, in which the factors driving growth in Latin America and the Caribbean in the past few years have all but disappeared, the international crisis is being transmitted through various channels that are, in turn, having different effects on each one of the countries of the region.

A. The fall in world demand

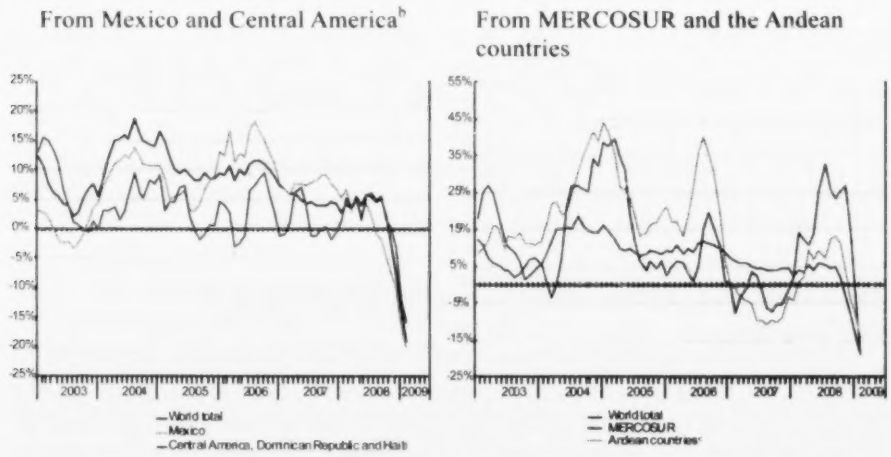
11. The recession in the developed economies and the significant slowdown in the emerging ones will reduce demand for exports from Latin America and the Caribbean. The trend in the United States' imports from the region illustrates how the international financial crisis has been affecting the region's economies through trade. The total non-oil imports of the United States had grown relatively steadily since mid-2007, when the financial crisis erupted. In the third quarter of 2008, import growth became negative, and by February 2009 the fall amounted to some 19.2 per cent.

12. This implies that, on average, the effect of rising prices for imported commodities was more or less counterbalanced by the decrease in import volumes. The situation of imports by the United States from Latin America and the Caribbean has varied considerably from country to country. Non-oil imports from Mexico began to slow in mid-2007 and continued to fall to the point where they registered a year-on-year contraction of 20 per cent in February 2009. Imports from the Central American countries have, on the other hand, behaved similarly to imports worldwide. This is because, although there is evidence of a slowdown and even of a contraction in Central American manufactures destined for the United States market, this decline has been offset by higher prices for commodity exports. United States imports from the Andean countries and MERCOSUR, a large proportion of which are commodities, have risen in step with commodity prices since mid-2007. Since early 2009, however, those countries have begun to feel the negative impact of the situation in the United States, which has cut back sharply on its imports.

Figure I

United States of America: non-oil imports, January 2000-February 2009[a]

(Variation compared with the same month in the previous year)



Source: ECLAC, on the basis of figures from the United States International Trade Commission.

[a] Based on the three-month moving average of the relevant seasonally adjusted series.

[b] Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

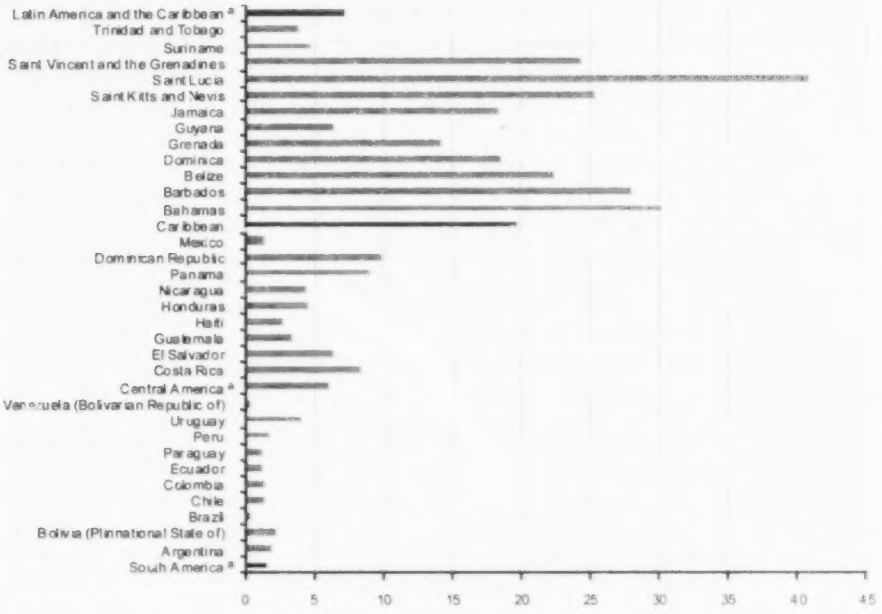
[c] Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Peru and the Plurinational State of Bolivia.

13. The decrease in merchandise exports is having a greater impact on growth in the more open economies, in those that trade more with developed countries and, in particular, in those that sell a larger proportion of manufactured goods to developed markets, as it will be more difficult to find alternative markets for such goods quickly. In the Bolivarian Republic of Venezuela, Chile, Costa Rica, Ecuador, Honduras and Mexico, trade with developed countries accounts for over 10 per cent of GDP. An examination of manufacturing exports alone, however, reveals that such exports account for over 10 per cent of GDP only in Costa Rica and Mexico, and close to 5 per cent in Honduras.

14. In some of the region's countries, part of the negative impact on growth will be the result of lower demand for services, particularly tourism, the demand for which is extremely income-elastic. The World Tourism Organization projects that world tourism will remain static or even contract by up to 2 per cent in 2009. The recession in the developed economies, which are home to approximately 75 per cent of all tourists travelling to the English-speaking Caribbean and over 40 per cent of those travelling to Central America (for Cuba and the Dominican Republic, the percentage is 75 per cent), will have an impact on per capita disposable income and hence on tourism spending. Business travel may be particularly hard hit. Nevertheless, an easing of inflationary pressures and currency depreciation in several countries in the region could compensate in part for these effects and tourist destinations closest to the place of residence could benefit. Price competitiveness and the exchange-rate situation between the different tourist destinations will prove to be much more important for sustaining this sector. Lastly, several countries where significant investments have taken place in recent years will be better placed to compete for the declining demand that seems to be in the offing.

15. Figure II shows that Caribbean countries and some Central American economies may be among the most severely affected. In the Caribbean, exports of tourism-related services represent around 20 per cent of GDP, compared with an average of 5 per cent in Central America and just under 10 per cent for Costa Rica, the Dominican Republic and Panama.

Figure II
Latin America and the Caribbean: tourism in 2007
(Percentages of GDP)



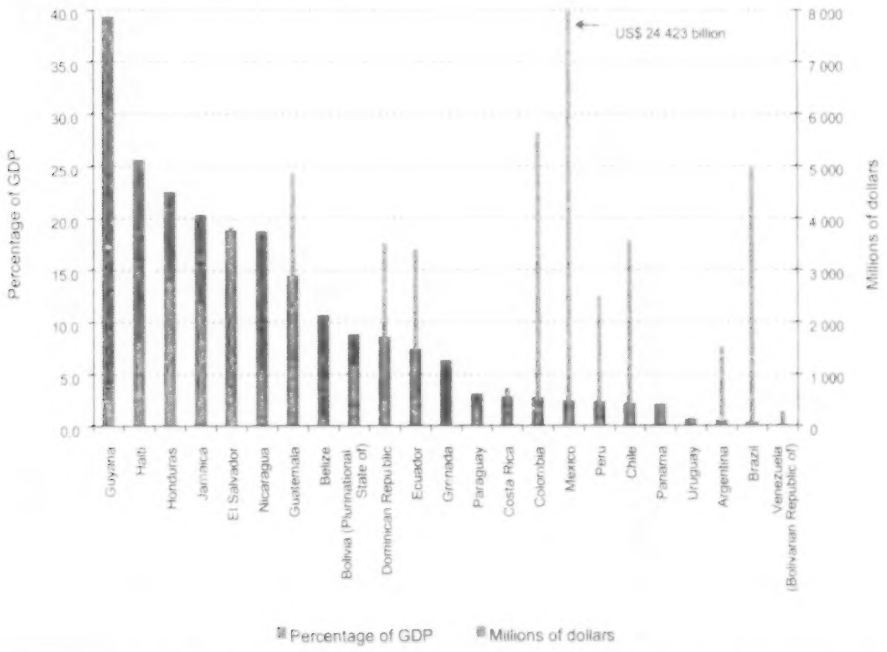
Source: ECLAC, on the basis of official figures.
[a] Simple average.

B. Expected trend in remittances

16. Weaker job markets in developed economies will have an adverse effect on the remittances that migrant workers send back to their families in their home countries. Remittances have been a very important source of external revenues in Latin America and the Caribbean, where they have helped to increase the well-being of low-income families. Falls in remittances resulting from the economic slowdown in migrants' host countries, together with the implementation of stricter migration control policies, have a clear negative impact on the well-being of those households. Consequently, the major challenge will be to prevent poverty levels from rising.

17. Once again, certain Central American and Caribbean countries are most at risk, as in many such economies, remittances represent between 15 per cent and almost 40 per cent of GDP. These countries are, in decreasing order, Haiti, Honduras, Jamaica, El Salvador, Nicaragua and Guatemala. Slightly less at risk are countries where remittances account for 5 to 10 per cent of GDP. This category includes Belize, the Dominican Republic and Grenada as well as some South American economies, such as Ecuador and the Plurinational State of Bolivia.

Figure III
Latin America and the Caribbean: current transfers (credit), 2007
(Percentages of GDP and millions of dollars)



Source: ECLAC, on the basis of official figures and the International Monetary Fund (IMF).

C. Commodity prices

18. Commodity prices rose steadily between mid-2007 and mid-2008. Although there was an across-the-board rise in commodity prices, the increase was particularly striking in the cases of petroleum, certain metals, such as copper, and foodstuffs, such as soybean, maize and wheat (the latter was part of the global "food-price inflation" experienced at that time).

19. The indices for most of the region's export products peaked between June and August 2008; the total aggregate (not including petroleum) skyrocketed in July. From then onwards, sharp declines ushered in the new recessionary and deflationary phase of the international crisis. In the case of petroleum, prices at the end of December 2008 were similar to those recorded in late 2004, while metal prices were similar to those observed at the end of 2005. Food prices, which had shown a smaller increase previously, fell less dramatically, with prices in December 2008 being more or less equivalent to those of mid-2007. Beginning in January 2009, most commodity prices stabilized. In the first quarter of 2009, the average monthly variation of food prices was 2.3 per cent, that of petroleum was 3.9 per cent, and metals and minerals continued to decline slightly, by an average of 1.4 per cent.

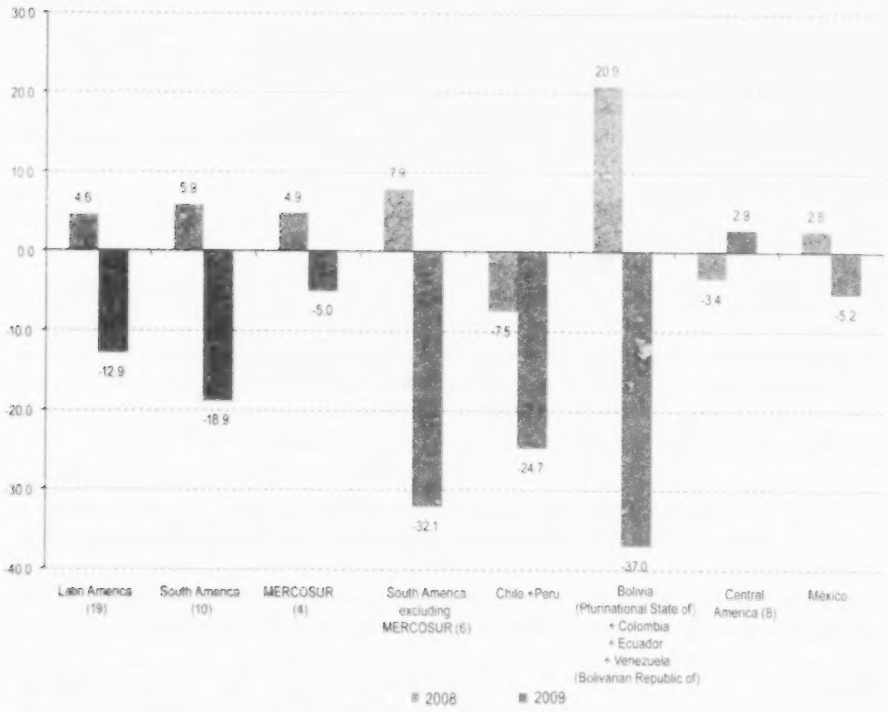
Figure IV
Commodity price indices
(2000=100)

Source: ECLAC, on the basis of United Nations Conference on Trade and Development.

20. For most of the region's countries, commodities make up a considerable proportion of the export basket and, for many countries, they are a significant source of public funds. For all of those countries (including Mexico and those in South America, which had all benefited from improved terms of trade since 2003), the commodity price patterns expected in 2009 are expected to cancel out one of the main sources of the region's recent growth.

21. For the region as a whole, it is estimated that the terms of trade improved by just 4.6 per cent in 2008 and will fall by 12.9 per cent in 2009. For Chile and Peru, both of which are metal exporters, the terms of trade fell by around 7.5 per cent in 2008, and a drop of 24.5 per cent is expected in 2009. Fuel-exporting countries enjoyed a 20.9 per cent rise in their terms of trade in 2008, but a fall of approximately 37 per cent is projected for 2009. As for MERCOSUR, where food accounts for a considerable proportion of exports, the rise in 2008 will be offset by the decline projected for 2009. In Mexico, the terms of trade improved by 2.8 per cent in 2008 and will probably drop by over 5 per cent in 2009.

Figure V
Latin America (19 countries): terms of trade, 2008-2009
(Annual rates of variation)



Source: ECLAC, on the basis of official figures.

22. In contrast, as Central America and the Caribbean are net importers of commodities, the fall in oil, metal and cereal prices alleviates and partially offsets the consequences of the world economic slowdown and the fall in remittances. In a departure from the figures presented in the previous paragraph, the terms of trade in Central America deteriorated by 3.4 per cent in 2008, but a rise of nearly 3 per cent is expected in 2009.

23. Recent trends in food and energy prices are easing inflationary pressures, although in some cases, given the rapid devaluation of many currencies, this has yet to be reflected in price indices. As a result, overall, inflation rates are expected to be lower in 2009.

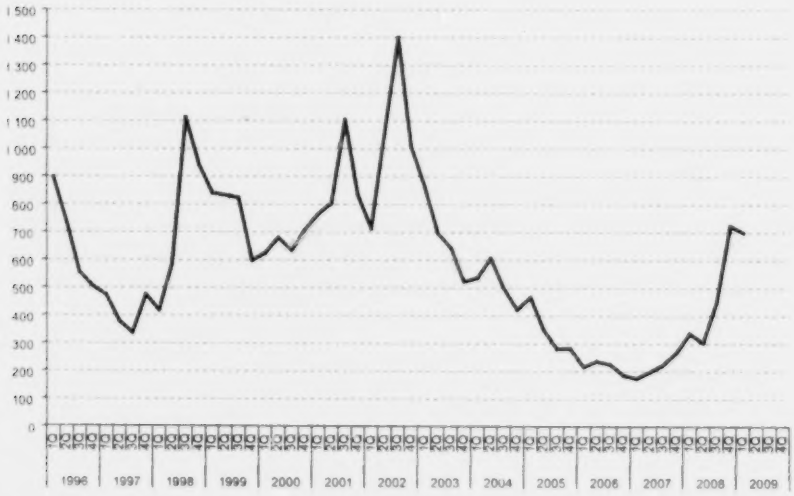
D. Financial contagion

24. As stated previously, beginning in the second half of 2008, the crisis had an increasing impact on the financial markets of Latin America and the Caribbean. In the final four months of the year, the region experienced a slowdown, then a decline, in portfolio flows, major falls in regional stock markets and drastic depreciations, attributable in part to previous speculative positions based on expectations of appreciation for Latin American currencies.

25. The cost of international borrowing soared, mainly for businesses, but also for sovereign debtors, although the region's experience in this regard is merely a reflection of the widespread increase in risk aversion sparked by increasing global uncertainty, and it affected the debts of emerging economies in general. As shown in figure VI, the increase in sovereign risk premiums in the region is actually smaller than in previous crises, although this varies a great deal across countries.

Figure VI
Latin America: interest-rate spreads measured by EMBI+[a]

(Basis points, end of period)



Source: ECLAC, on the basis of JP Morgan.

[a] JP Morgan Emerging Market Bond Index Plus.

26. Although the region's financial activity has not been exposed to toxic assets, the problems existing on the interbank market and the impact that the tightening of external credit has had on local credit markets are two ways in which turmoil in the financial markets of developed countries can be transferred to the region. However, the available information is not sufficient to allow the scale of this impact to be calculated.

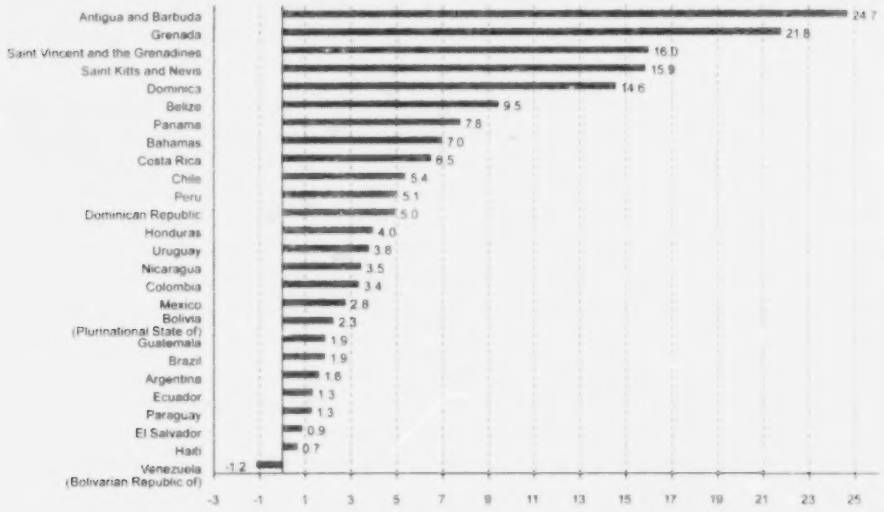
27. Of particular concern in the region are the conditions of access to credit for a series of large enterprises from various countries that usually find financing on international markets. Given the credit crunch and the higher price of credit in global financial markets, it is expected that it will become more difficult to meet borrowing requirements. The reduced availability of external financing will force the larger private enterprises to turn to the domestic market. This, along with increased uncertainty, will probably make it more difficult for small and medium-sized enterprises to access financial resources. The backdrop to all this is a liquidity squeeze in local credit markets.

28. In late 2008, companies with foreign-currency debts saw their balances negatively impacted by the sharp devaluations of several of the region's currencies. This is a striking and somewhat unprecedented feature of this cycle as, unlike the situation in previous crises, it is the private sector that is the most exposed to exchange-rate volatility in many countries.

E. Impact on foreign direct investment

29. The tightening of international financial conditions is likely to have an adverse effect on inflows of foreign direct investment, which has been such an important source of resources for some countries in recent years. Figure VII shows the great significance of foreign direct investment inflows into some Caribbean countries (related to tourist activity), where they account for between 15 and 25 per cent of GDP, into Costa Rica, the Dominican Republic and Panama (between 5 and 8 per cent of GDP) and into Chile and Peru in South America (with foreign direct investment accounting for around 5 per cent of GDP in 2008).

Figure VII
Latin America and the Caribbean: net foreign direct investment, 2008
(Percentages of GDP)



Source: ECLAC, on the basis of official figures from the relevant countries and IMF.

IV. The Latin American and Caribbean region is better prepared to face the crisis but is not immune

30. Over the last six years, the region has made a number of improvements in terms of macroeconomic and financial policy. This has enabled countries to take advantage of the external boom and now means that the region is better able to cope with a crisis than ever before. Thus, it has been able to continue growing even as the external situation seriously deteriorates. Nevertheless, many of the improvements are beginning to fade and in some cases there has actually been a reversal.

31. Even though the factors described below are clearly different from those observed in past situations, if the crisis deepens or its effects become more prolonged, the macroeconomic foundations of the region's recent growth are likely to be weakened eventually. The following are the factors involved.

A. Balance-of-payments current account surplus

32. It is unprecedented in the region's economic history for growth to coincide with a surplus on the external accounts. Initially, this was due to the combined effect of greater export volumes and higher prices for the exports of most countries. However, as the volume factor became less important, the increase in export values began to be solely dependent on international prices (while economic growth was also accompanied by a rise in imports). Therefore, the recent fall in commodity prices, and the expectation that this downward price trend will intensify as a result of slower world growth, have cast doubt over one of the region's main strengths in recent years, namely, its independence from external financing. Indeed, in 2008, these factors had

already generated a slight current account deficit (0.6 per cent), which is expected to widen in 2009 to a projected deficit of around 2.5 per cent of regional GDP.

B. Generation of surpluses in the public accounts

33. Public accounts improved significantly, largely thanks to higher revenues and (up to 2007) to less expansionary spending patterns than in the past. This improvement in public accounts resulted in a substantial reduction in public debt.

34. More recently, public spending has been on the rise, and this has curbed the expansion of the primary surplus, which has become solely dependent on income levels, and the reduction of public debt has also slowed. As with the current account balance, public revenues are expected to come under greater pressure at times when it may become necessary to increase spending to counterbalance the slowdown in private demand.

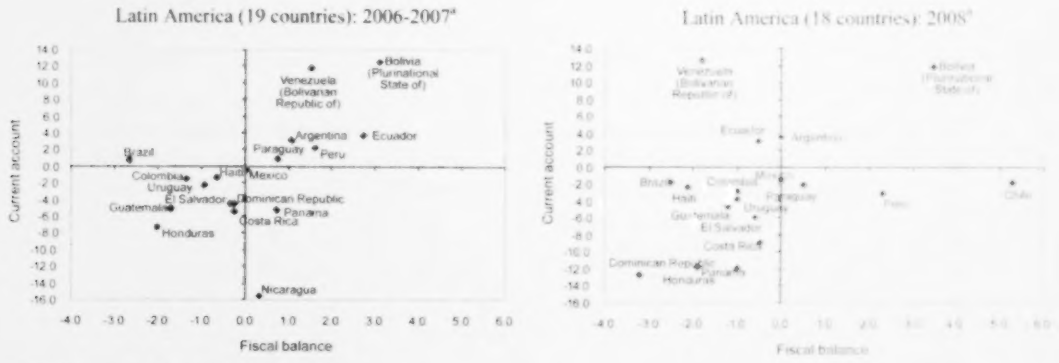
35. Given the pattern of income from exports of non-renewable resources, a small total deficit is estimated for the public accounts in 2008 (0.3 per cent of GDP), although the primary surplus is expected to remain. In 2009, there should still be a primary surplus, albeit a smaller one, and the total deficit will expand to 1.5 per cent of GDP.

36. The region's twin surpluses (on the current account and the fiscal accounts) in the period 2006-2007 are giving way to twin deficits, starting off small in 2008 and widening in 2009, with significant variations attributable to those countries with extremely large internal and external deficits. The marked differences that may be observed in the capacity of individual countries to cope with the crisis and the actual situation on international financial markets make it crucial for international financial institutions to expedite and increase financing arrangements in order to provide funding for measures that will cushion the impact of the crisis.

Figure VIII

Latin America and the Caribbean: current account balance and fiscal balance

(Percentages of GDP)



Source: ECLAC, on the basis of official figures.

[a] The data refer to the central government, except in the cases of Argentina, Brazil, Colombia, Ecuador, Mexico and the Plurinational State of Bolivia, where they refer to the non-financial public sector.

C. External debt and international reserves

37. Exceptional liquidity conditions on the financial markets in recent years have meant that the reduction in external debt made possible by the twin surpluses went hand in hand with a tendency to renegotiate debt with better conditions in terms of rates, maturities and even currency in some cases. At the same time, some countries experienced strong capital inflows seeking to take advantage of the significant interest-rate spreads as currencies appreciated.

38. These capital inflows, combined with current account surpluses in many countries and foreign direct investment, led to significant growth in international reserves, which averaged about 12 per cent of the region's GDP.

39. The role of financial capital inflows is increasingly significant in terms of the factors that contribute to the growth of international reserves. This is especially true when compared with the share of the increase in foreign exchange reserves that is accounted for by current account surpluses, which showed a markedly downward trend. This makes the stock of reserves somewhat fragile, particularly in some of the countries of the region, in the light of the volatile nature of such resources.

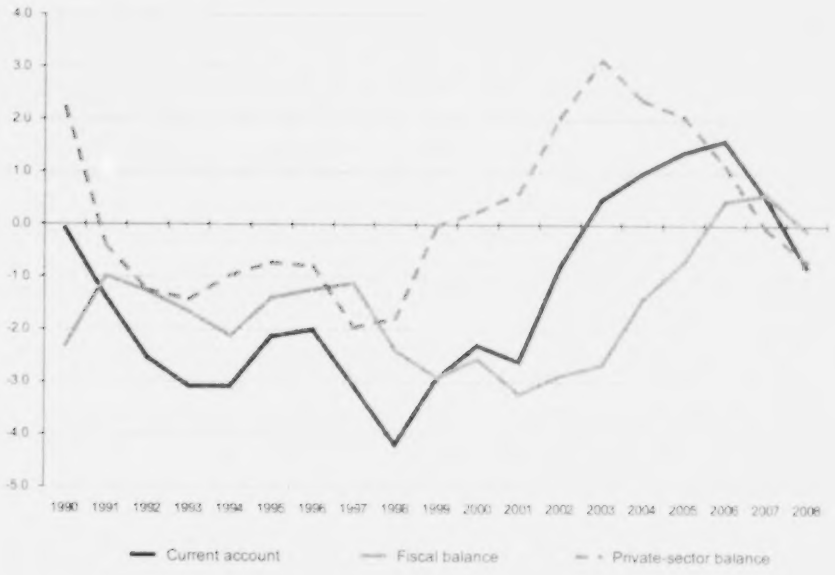
D. Private sector

40. The maintenance of macroeconomic equilibrium requires that the sum of external saving and public saving be equal to the difference between private-sector investment and saving. External saving is equivalent to the balance-of-payments current account balance, but with the sign reversed. From 2003 to 2007, that balance was negative for Latin America and the Caribbean, and this was the counterpart to the current account surplus. In 2008, however, the external saving figure was positive.

41. When public-sector saving is calculated by means of the overall fiscal balance, the amount by which investment exceeds private saving can be determined; this, in turn, is an approximation of the private surplus (when it is positive) or, inversely, of private-sector overspending (when it is negative). This factor can produce a significant level of external vulnerability, as may be the case in a number of the countries the private external debts of which have risen considerably, even if the macroeconomic fundamentals which are followed most closely are sound (as in the case of the twin surpluses seen in the region from 2003 to 2007).

42. The behaviour of the current account balance, the surplus on public accounts and the private-sector surplus in recent years provides a new picture of fundamental economic aggregates in the region. Taking the regional average, the private sector was in surplus from 2003 to 2007, while the public sector cut back its deficit and then achieved a surplus from 2006 onwards. Until 2006, the private surplus was very high and easily compensated for the shrinking public-sector deficit, so the region as a whole was in surplus and did not need external saving; the current account balance was positive, so external saving was negative. In 2006 and 2007, negative external saving was mainly a reflection of the public surplus, since the private sector saw its surplus shrink in 2006 and posted a deficit in 2007. From 2008 onwards, external saving was positive, owing to the combination of a fiscal deficit and excess private spending. In a context of tight international financial markets, this combination of factors is a source of vulnerability.

Figure IX
Latin America (19 countries): current account, fiscal and private-sector balances
(Percentages of GDP)



Source: ECLAC, on the basis of official figures.

V. Measures implemented in the region to cope with the escalating crisis

43. The Latin American and Caribbean countries have adopted a variety of measures in response to the deepening international financial crisis. They are well aware that, although most of them have macroeconomic foundations that are significantly stronger than in the past, the region will not escape the impact of instability in world financial markets and the expected recession in the developed economies.

44. The range of measures implemented is quite wide, not only because the effects differ from country to country and the instruments needed for countering them therefore also vary, but also because of differences in the countries' capacities, in terms of the availability of resources, to implement such initiatives.

45. That availability generally depends, on the one hand, on the fiscal room for manoeuvre available for financing the measures, when their implementation entails the use of public funds; and on the other hand, when they involve foreign-currency transactions, on the availability of external assets (basically, foreign reserves) or of access to foreign-currency credit. In the current circumstances, the latter is limited to dealings with international financial bodies. Beyond these considerations, taking into account the impact that measures in one area may have on the rest of the economy, a full analysis of the countries' capacities should encompass, in addition to the aforementioned factors, other elements, such as the degree of monetization

and the depth of the financial market or the balance-of-payments current account balance. It should be remembered that a demand promotion strategy based on increased public spending, aside from its fiscal impact, may widen the external deficit beyond a country's capacity to finance it. In this case, the availability of foreign-currency resources will be an issue even if there is plenty of fiscal room for manoeuvre.

46. Table 2 summarizes the areas where the Governments of the region have chosen to take action. In the short term, central banks in several countries have endeavoured to provide liquidity to their financial systems in both domestic and foreign currency in order to enable local credit markets to function normally or to provide funding where those markets cannot do so. Generally, there has been a marked difference between the scope of the policies announced in certain South American countries in comparison with some of the Central American and Caribbean States. This certainly relates to differing capacities to implement countercyclical policies.

Table 2
Summary of measures, by country

Measure	Country																													
	AR	BO	BR	CL	CO	CR	CU	EC	SV	GT	HT	HN	MX	NI	PA	PY	PE	DO	UY	VE	BS	BB	BZ	GY	JM	AG	LM	GD	KN	LC	VC	SR	TT
Monetary and financial policy																																	
Reduction or relaxation of reserve requirements	X		X	X	X					X		X				X	X	X															
Provision of liquidity in national currency	X	X	X	X	X	X				X		X	X	X		X	X	X	X			X			X								
Fiscal policy																																	
Tax cuts or increased subsidies	X		X	X	X			X	X			X	X		X			X	X			X	X	X	X	X	X		X	X			
Spending increased or brought forward (infrastructure)	X	X	X	X	X	X				X		X	X	X		X	X		X		X		X		X				X				
Exchange-rate and external trade policy																																	
Provision of liquidity in foreign currency *	X	X	X	X	X				X	X							X		X						X								
Increased tariffs or import restrictions	X							X								X			X				X										
Tariff cuts	X		X					X					X	X			X										X	X	X	X	X		
Financing of exporters	X		X	X	X			X								X	X		X						X								
Obtaining credit from international financial bodies					X	X		X	X	X		X	X	X	X	X	X	X					X		X								
Sectoral policies																																	
Housing	X	X	X	X	X	X				X		X	X	X		X	X	X	X														
Small and medium-sized enterprises	X			X	X	X				X		X	X			X	X		X			X	X										
Agriculture		X	X	X					X	X	X	X	X	X	X	X		X	X		X		X	X	X			X					
Tourism										X			X	X					X		X	X			X	X				X	X			
Manufacturing	X	X	X	X	X							X	X	X		X			X			X		X	X							X	
Employment and social policies																																	
Promoting job creation	X		X	X	X	X							X	X		X	X	X	X							X				X			
Social programmes			X	X	X	X			X		X	X	X	X		X	X	X			X		X	X	X	X	X	X			X		X

* Does not include central bank interventions involving the sale of foreign exchange in currency markets.

Note AR= Argentina
BO= Bolivia
BR= Brazil
CL= Chile
CO= Colombia
CR= Costa Rica
CU= Cuba
EC= Ecuador
SV= El Salvador
GT= Guatemala
HT= Haiti
HN= Honduras
MX= Mexico
NI= Nicaragua
PA= Panama
PY= Paraguay
PE= Peru
DO= Dominican Republic
UY= Uruguay
VE= Venezuela (Bol. Rep. of)
BS= Bahamas
BB= Barbados
BZ= Belize
GY= Guyana
JM= Jamaica
AG= Antigua and Barbuda
DM= Dominica
GD= Grenada
KN= Saint Kitts and Nevis
LC= Saint Lucia
VC= Saint Vincent and the Grenadines
SR= Suriname
TT= Trinidad and Tobago

VI. Current situation and outlook for 2009

A. External situation

47. In early 2009, it is not yet possible to arrive at an accurate projection of the impact that the financial crisis will have on the real sector of the economy. With uncertainties spreading worldwide, the balance sheets of financial bodies are weakening owing not only to the loss of value of mortgage guarantees but also, more generally, to the impact of the recession and the severe shortage of liquidity. The uncertainties also extend to the prospects for other major financial-market components such as insurance companies, hedge funds and pension funds, some of which have already been the object of rescue operations.

48. The recessionary trend is gradually worsening as a result of huge losses of financial and non-financial wealth in the private sector, most of all in the developed countries but also in emerging economies, and the steep fall in credit. The downward trend is also damaging expectations and causing sharp declines in investment and consumption.

49. In the fourth quarter of 2008, levels of activity and other real variables in the world's principal economies weakened considerably, creating a negative feedback loop in financial markets. Macroeconomic aggregates in the United States indicate that, even though levels of economic activity did not worsen initially, growth in the first months of 2008 reflected a sharp drop in the aggregate formed by consumer durables and residential investment (-6.1 per cent), together with a strong upturn in goods and services exports (10.5 per cent), which were stimulated by the real depreciation of the dollar up to mid-2008. This signals a progressive weakening of the domestic market, which grew worse towards the end of the year.

50. The labour market, especially labour demand, has been very sensitive to the effects of the crisis. While in 2006-2007 new jobs created each month averaged about 137,000, during 2008 nearly 250,000 jobs were lost per month; in the first quarter of 2009, the monthly average loss was estimated at as many as 685,000 jobs, bringing the unemployment rate to 8.5 per cent in March 2009, its highest level since the early 1980s.

51. In the other developed economies, not only did the new conditions lead to a sharper initial slowdown than in the United States, but the financial problems were passed through to economic activity more rapidly. GDP growth rates in Japan for 2008 were negative overall (-0.6 per cent), with a sharp fall (-4.3 per cent) in the last quarter, compared with the previous year. The euro zone recorded 0.8 per cent growth in 2008, and a contraction of -1.5 per cent in the last quarter, compared with the same period in 2007. This was associated, first, with a downturn in export performance — as a result of real dollar depreciation in the early stage of the crisis — and weakening capital formation. In a number of countries, such as Germany and Japan, the export expansion from 2003 onwards had driven a surge of investment in machinery and equipment, which lost its momentum in the new conditions. In other countries, such as Ireland and Spain, rising investment in construction had been associated with the real estate boom, which began to be reversed as conditions toughened in the credit market.

52. The depth and duration of the recession will depend on the effectiveness of steps taken to stimulate demand and offset the slump in private spending, as well as on the normalization of credit markets.

B. Expected performance of the Latin American and Caribbean economies in 2009

53. As noted earlier, although the Latin American and Caribbean region is better prepared to face this crisis than previous ones, there are a number of channels through which the economies are likely to be affected. First, the impact on the real channel — the global slowdown — has a number of aspects that will have a variety of consequences and will not affect all the countries the same way. The impact of the financial contagion will depend on various factors and the countries of the region are exposed to it in varying degrees.

54. Overall, since the international crisis worsened in the last quarter of 2008, the impact on the region has been extremely serious, making it necessary to revise downwards the growth estimate for 2008 and to lower the basis for estimates for the current year. The weakening of external markets has affected the region at a time of growing uncertainty both regionally and globally, with adverse effects on private-sector expectations and negative implications for investment and consumption.

55. GDP is expected to contract slightly this year. The two leading economies in the region are expected to be hardest hit: Brazil (-1 per cent) and Mexico (-2 per cent); however, all countries without exception have been experiencing a significant slowdown and, with few exceptions, a decline in per capita GDP.

56. Moreover, sluggish levels of activity will have an adverse effect on the labour market. The unemployment rate may rise to almost 9 per cent, which will inevitably lead to an increase in the informal sector. Both of these factors will push up poverty levels, following a few years marked by improvements in that area.